TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: CalSTRS Electronic Service (E-Service)   ITEM NUMBER: 12

ATTACHMENT(S): 0

ACTION: ____   DATE OF MEETING: November 9, 2000

INFORMATION: X   PRESENTER(S):   Michael Carter/Larry Martin

Summary:

With the continuing advances of Internet technology, the acceptance of technology by the populace along with the computer and Internet literacy of our membership, CalSTRS must aggressively embrace "e-service" to meet member expectations. With our members being able to conduct financial business such as personal investments, banking, insurance and obtaining loans through the Internet, they will expect that we provide a full range of services via the Internet which heretofore were only offered through conventional means by CalSTRS. (The term "e-service" is preferred by CalSTRS in lieu of the more familiar terms "E-service" or E-commerce" as a more appropriate descriptor of what we offer.) CalSTRS e-service will include being able to obtain account specific information, to update account information, to initiate benefits and to obtain the status of processing benefit applications. Additionally, the Web based processing can be leveraged to link with employers to obtain membership information and reports of earnings and contributions in a much faster manner. Further, we can utilize the Internet to obtain third party information such as IME and IVE reports (Independent Medical Evaluations and Independent Vocational Evaluations respectively) resulting in accelerated processing of applications for disability benefits.

The expected value of e-service should be three fold. First and foremost will be increased service to the membership through direct access to their accounts at all times (24 hours per day/7 days a week). Second will be direct linkage to information providers such as employers and third parties. Third should be an eventual decrease in the costs of administration of CalSTRS.

Currently there is a team of managers, supervisors, program and technical staff which is developing a plan for implementing various levels of e-service within the next three years. The preliminary conclusion of this team is that CalSTRS should embrace e-service with members, other governmental entities and service providers.

During the presentation of this item at the Board meeting, staff will demonstrate an e-service prototype which was developed for CalSTRS by a software vendor. This demonstration will give the Board a view of the type of functionality which can be included in the initial offering of CalSTRS e-service.

Discussion:

With the START system nearing implementation in the next few months, CalSTRS has an opportunity to leverage this new system and offer members the opportunity to access their retirement accounts directly via the Internet and transact business previously only possible through written communication. Offering this service would be consistent with the results of the CalSTRS Customer Survey taken in early 1999. In this survey, 63% of those active members responding to the survey indicated they would utilize Internet based services if CalSTRS offered them. Among retirees, 52% of those responding indicated that they would use the services. The types of e-services contained within the survey which members indicated they would utilize included the accessing of account information, e-mail inquiries, changing of attributes such as addresses and beneficiaries, researching benefits (obtaining benefit estimates) and filing applications for benefits. Further, the majority of those members responding indicated they would be willing to utilize a Personal Identification Number (PIN) or password to access their accounts.

A CalSTRS "E-Service" team was formed and has been meeting for the past few months to examine the possibilities for e-service. The initial conclusion of the team is that CalSTRS should provide e-service as soon as possible. The team envisions a phased rollout of e-service with the initial offerings being made available to members within 12 months after START implementation.

The first e-services to be offered will include those which can be developed and implemented in the least possible time following START implementation, which will incur the slightest development cost and which best fit our technology base available at the time. These initial services will not be dependent on the corporate imaging system needed for electronic routing of documents and/or automatic appending of members' input to START nor on any potential legislation allowing certain procedures such as digital signatures to be legally acceptable.

Those services which will be offered first include:

- Interactive Retirement Estimator. Currently the CalSTRS Internet site offers a retirement benefit-estimating program, however, the user of this service must input account data (compensation and service credit). This requirement necessitates having the data available to use this program and increases the chance for input error, resulting in incorrect estimates being provided. Additionally, this arrangement is not nearly as convenient as having the system input the account data. Using the e-service calculator, upon request for a benefit estimate, the member's account would be queried and the needed data would be loaded into the calculator. With this service in place, the only information which the member would need to input is his/her proposed retirement date and the birth date of an option beneficiary if

an estimate of an option allowance is sought. In addition to providing the estimate for the retirement date being requested, the system could automatically offer estimates based on that retirement date a year or two earlier as well as later.

- Permissive Service/Redeposit Service Cost Estimator: When a member is considering purchasing permissive service or redepositing previously refunded service, s/he must write CalSTRS requesting the cost for such service. Owing to mailing times and the period CalSTRS needs to process the request for a quotation of cost, the member must wait two to three weeks to receive a response. Often times, after the quote is provided to the member, due to the cost of the service, the member elects not to pursue the purchase.

  With an e-service calculator available, the member at his/her convenience could enter how much service they wished to purchase and immediately obtain an estimate of the cost. In that the formula for permissive service uses current and past year compensation data, data would be automatically loaded into the program used for calculation. If the refund occurred during the past few years, then the amount of the refund would be loaded into the calculator and applied to the interest factors existing during the time between the refund and the date of the request for an estimate.

  An interesting feature being considered for this application is a "pay back" calculator. With this variation of the calculator, an estimate will be provided of the time it will take to recover the cost of purchasing the service (considering the increase in benefit amount reflected by the purchase of the service).

- Account Balances: With this feature, a member could immediately obtain the current account balances, in terms of contributions, interest and service credit.

- CalSTRS Forms: To make a change such as an update of address or in income tax withholding preference, members must presently request a form from CalSTRS, complete it indicating the action requested and mail it back to the CalSTRS. What we plan on offering during the initial year of e-service is to place more forms on the system and allow members to download the forms and complete them, using their personal computers. Members would then print the forms and mail them back to CalSTRS. With this service available, members would be able to make changes to their accounts faster than currently possible.

  In succeeding years, members would be able to transmit completed forms electronically to CalSTRS. This capability would be followed by the ability for the changes contained on the forms to be immediately appended to the database and the forms archived in the corporate imaging system.

During the two or perhaps three years following the implementation of the initial services, we would enhance the offerings. Although schedule of implementation of additional offerings has yet to be formally adopted, we anticipate the following to occur:

Probable Offerings for Second Year of E-Service Roll-Out:

- Access to current and past year 1099R data
- Access to current and previous pay period direct deposit advice data (electronic funds transfer check-stub)
- Access to current and past year active member annual statement of account data
- Update of home addresses
- Update of direct deposit bank information
- Account data for Defined Benefit Supplemental Account, Cash Balance and VIP programs
- Additional form access will be offered

Probable Offerings for Third Year of E-Service Roll-Out:

- Application for Service Retirement
- Reporting of member/beneficiary deaths
- Application for Disability
- Status of application processing
- Application to purchase redeposits or permissive service
- Receipt of reports of third parties (e.g. IME/IVE providers)
- Automatic submission and processing initiation of Defined Benefit MR 87 Reports (account establishment) and F496 Reports (monthly report of earnings and contributions) by employers
- Additional form access will be offered

Cost of Project:

At this time, it is difficult to estimate the total cost of this undertaking. While the cost will be substantially less than the START project and most likely less than the Corporate Imaging project, we nevertheless will need budget augmentation to develop and maintain these offerings. With a late FY 2000/early FY 2001 implementation of START, we anticipate funding to be available this year to develop the initial offerings noted earlier in this report. For second year offerings, we have requested budget augmentation for FY 2001-2002.

What will keep the development and maintenance cost in check is that we can use the actual START programs to perform the calculations. In lieu of having to develop independent estimate calculators and having to separately maintain them, we can instead leverage the work performed to develop the START system. With a type of ADABAS/Natural compatible software, generically called middleware, already available at the Teale Data Center, the primary software development will be the Internet shell software. Under this scenario, an e-service call to the CalSTRS Web site would access this shell which in turn would invoke the middleware which would allow access to the START programs and account data. The same START software which is used to calculate and maintain benefits and determine the cost of permissive and redeposit credit, would provide the estimates offered in the initial year of offerings and later would be used to capture member originated updates and applications for benefits.

Security:

The e-service offerings would all occur within a very sophisticated data center security apparatus. Member access will be offered through use of a Personal Identification Number (PIN) or password environment. We will soon be examining various alternatives to generation and distribution of PINs/passwords. We may develop software to meet this need or we may purchase available systems to perform the task. Alternatively, to reduce the time to implement initial year e-service and minimize cost, we may choose to have an acceptable but secure scheme which would not use PINs or passwords. Because the initial year's offerings are non-transactional (access only), this scheme appears to be viable. If we so choose to pursue this method, unique identifiers such as partial social security numbers, birthdates and middle initial of the member's name would be used to gain access to the retirement and receivable estimation software. Use of these attributes is similar to what is used currently by some private sector financial institutions.

Non-Technical E-Service Questions:

There are some non-technical issues which need to be addressed before we can proceed to second and third year offerings. An example of these issues relates to electronic signatures. Although there has been some recent legislation at both Federal and State levels which authorize the use of electronic signatures, we need to ensure for CalSTRS purposes an electronic signature is legally as well as procedurally prudent. If they are not, we will need to develop additional procedures to ensure transactions received through e-service are legally acceptable.

Another issue, which CalSTRS needs to consider in employing e-service, is the immediate nature of Internet transactions. Currently, for a person to retire, an application for retirement must be obtained, completed and returned to CalSTRS either in person or my mail. With e-service, a member could apply for a benefit effective on the day of the application and have it accepted immediately. It is possible if the member had more time to consider the application as they have in the mailing or personal delivery of a paper application, they might choose to not proceed.

To deal with the potential of hasty applications, we may need to build in a "cooling off" period similar to that employed in some segments of the loan industry. Under this scenario, an e-service application would be accepted on the day of receipt effective on the day selected by the member. The member would have a set period of working days, for example three days, to cancel the application even if the effective date of retirement had passed. Under current law, a retirement may not be cancelled if the effective date has passed. We would most likely have to seek a change to CalSTRS law to accommodate any cooling-off period.

Conclusion:

With e-service in place, service levels offered by CalSTRS should significantly increase. Members, employers and third party contractors will be able to access CalSTRS and submit documents and/or transact business much more conveniently and expeditiously than currently possible. Most CalSTRS services will be available to constituents when they desire it rather than having to reach CalSTRS only during business hours. Coupled with the Corporate Imaging System, documents received through e-service will be immediately archived, changes updated automatically to START and if human intervention is required, the imaged document will be instantly routed to the unit responsible for processing it. E-service will very positively position CalSTRS for servicing the 21st century member, employer and business partner.